

Message Text

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ACTION EB-03

INFO OCT-01 SS-14 ADP-00 EUR-10 EA-13 NSC-10 NSCE-00

CIAE-00 INR-10 NSAE-00 RSC-01 PM-03 DODE-00 SCEM-01

L-02 TRSE-00 OMB-01 NEA-06 PRS-01 COME-00 AF-04

CIEP-01 RSR-01 /082 W
----- 057606

R 141838 Z MAY 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1177

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 05642

LIMDIS

E. O. 11652: XGDS

TAGS: ENRG, UK

SUBJECT: OIL: UK VIEWS ON CONSUMER COUNTRY COOPERATION

REF: LONDON 2929

BEGIN SUMMARY: HMG OFFICIALS HAVE TAKEN OPPORTUNITY OF VISIT BY FUNKHOUSER, S/ PC, AND INITIAL ROUND OF CALLS BY NEWLY ARRIVED ENERGY OFFICER TO STRESS REPEATEDLY UK SUPPORT FOR A FORMAL AGREEMENT AMONG US, EC AND JAPANESE GOVERNMENTS. SOME OIL COMPANY REPS HAVE ALSO COMMENTED, AND PROPOSAL HAS BEEN SKETCHILY REPORTED IN PRESS. INTERGOVERNMENTAL AGREEMENT WOULD REQUIRE SIGNATORIES
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AND SUPPLIER OIL COMPANIES TO REFRAIN FROM OBTAINING OIL IN A WAY " DETRIMENTAL " TO OTHER SIGNATORY COUNTRIES. NO SANCTIONS AGAINST GOVERNMENTS WOULD BE INVOLVED BUT GOVERNMENTS WOULD BE REQUIRED TO ESTABLISH IMPORT

LICENSING SYSTEM CAPABLE OF IMPOSING NECESSARY DISCIPLINE ON SUPPLIER COMPANIES. BP (AND REPORTEDLY SHELL) ARE NOT ONLY WILLING TO SUPPORT SUCH ARRANGEMENTS BUT APPEAR TO BE ACTIVELY CONTRIBUTING TO HMG THINKING ALONG THESE LINES. ALL OFFICIALS CONCERNED THAT TIME IS OF THE ESSENCE IN LIGHT OF RECENT ACTIONS BY JAPANESE AND OTHERS BRITISH EXPECT TO GET APPROVAL IN PRINCIPLE ON CONSUMER COOPERATION AT MAY 22 EC COUNCIL ON ENERGY MATTERS SUFFICIENT TO ALLOW SIMONET TO SPEAK FOR EC IN WASHINGTON ON THIS SUBJECT. BRITISH PREFER PROPOSAL BE HANDLED THROUGH REGULAR CONFIDENTIAL DIPLOMATIC CHANNELS ONCE LAUNCHED BUT DO NOT OBJECT TO DISCUSSION AT OECD HIGH LEVEL GROUP IN JUNE IF THIS THOUGHT USEFUL. END SUMMARY.

1. FCO AND DTI OFFICIALS EXPECT THAT MAY 22 EC COUNCIL OF MINISTERS DEALING WITH ENERGY MATTERS WILL REACH CONSENSUS FAVORING PRINCIPLE OF CONSUMER COOPERATION BUT NOT AGREEMENT ON SPECIFIC PROPOSAL. BRITISH HOPE SIMONET WILL HAVE BRIEF TO SPEAK FOR EC ON THE SUBJECT WHEN HE VISITS WASHINGTON. THEY ACKNOWLEDGE HOWEVER THAT WHILE (AT INSISTENCE OF UK) EC DOCUMENTS MAY GIVE PRIDE OF PLACE TO CONSUMER COOPERATION, SOME DOCUMENTS MAY ALSO CONTAIN STATEMENTS REGARDING DIRECT ARRANGEMENTS BETWEEN EUROPE AND PRODUCER COUNTRIES AND CONTROL OF OIL MARKET AT EC LEVEL. BRITISH OPPOSE THESE LATTER CONCEPTS AND POINT OUT THEY COULD JEOPARDIZE PROSPECTS FOR WIDER CONSUMER COOPERATION.

2. BRITISH OFFICIALS THEMSELVES QUICKLY DISMISS IDEA OF A CONSUMERS UNION WHICH WOULD CONFRONT OPEC. THIS WOULD BE EXTREME, HIGH- RISK APPROACH AT THIS TIME AT ANY RATE. IT WOULD TAKE TOO LONG TO WORK OUT AND STAND TOO LITTLE CHANCE OF SUCCESS. MOREOVER, THE WORST OF ALL POSSIBLE WORLDS MIGHT OCCUR: AN OPEN CHALLENGE TO OPEC WITHOUT TEETH. THEY ALSO SEE AS PRESENTLY UNOBTAINABLE A COMPREHENSIVE APPROACH
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EMBRACING A BROAD RANGE OF IDEAS ON ENERGY FRONT SUCH AS COOPERATION ON R& D, FINDING NEW SOURCES, ETC., IN ADDITION TO EMERGENCY SHARING ARRANGEMENTS.

3. UK VARIANT ON COOPERATION THEME ENVISAGES A FORMAL AGREEMENT AMONG US, JAPANESE, CANADIAN AND EC GOVERNMENTS WHICH WOULD DEFINE TO EXTENT POSSIBLE TERMS OF COOPERATION ON OIL MATTERS IN " NORMAL" AND " EMERGENCY" SITUATIONS. REGULAR DIPLOMATIC CHANNELS WOULD BE USED FOR IMPLEMENTING AGREEMENT WITH OCCASIONAL RESORT TO MINISTERIAL MEETINGS, THE OECD HIGH LEVEL GROUP, OR BOTH. UK DEFINITELY OPPOSES RELIANCE ON OECD MECHANISM PER SE GIVEN NEED FOR ABSOLUTE CONFIDENTIALITY,

PARTICULARLY IN CARRYING OUT AGREEMENT WITH REGARD TO
COOPERATION IN " NORMAL" CIRCUMSTANCES.

4. UK MAKES CLEAR DISTINCTION BETWEEN " NORMAL" AND
" EMERGENCY" COOPERATION; LATTER INVOLVING ALLOCATION

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INFO OCT-01 EUR-10 EA-13 ADP-00 SS-14 NSC-10 NSCE-00

CIAE-00 INR-10 NSAE-00 RSC-01 PM-03 DODE-00 SCEM-01

L-02 TRSE-00 OMB-01 RSR-01 PRS-01 COME-00 AF-04 NEA-06

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 05642

BELIEVE IS EASIER TO ACCOMPLISH AND IS BEST HANDLED IN
THE OECD. BRITISH NOTED PARENTHETICALLY THAT U. S.
RESPONSE AT JUNE MEETING ON QUESTION OF US- CANADA- JAPAN
AUSTRALIA SHARING AGREEMENT WOULD BE AWAITED WITH
INTEREST. (IN DISCUSSION WITH BP OFFICIALS, THEY MADE
CLEAR THAT A SHARING ARRANGEMENT, WHETHER LABELLED
" NORMAL" OR " EMERGENCY," WOULD BE CRUCIAL TO PARTICIPA-
TION IN ANY COOPERATIVE AGREEMENT BY THE JAPANESE AND
GERMANS.)

5. NORMAL COOPERATION WOULD REQUIRE GOVERNMENTS AND
COMPANIES NOT TAKE OR GET OIL UNDER TERMS " DETRIMENTAL"
TO INTERESTS OF OTHERS. UK BELIEVES IT WILL BE
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INCREASINGLY DIFFICULT OVER THE NEXT FIVE YEARS TO PREVENT CONSUMER COUNTRIES OR THEIR SUPPLIER COMPANIES FROM GETTING OIL IN A WAY WHICH WOULD BE " DETRIMENTAL" TO OTHER CONSUMERS. CONSEQUENTLY, UK BELIEVES A FORMAL, BINDING AGREEMENT AMONG GOVERNMENTS WHICH BY EXTENSION WOULD IMPOSE DISCIPLINE ON SUPPLIER COMPANIES IS ESSENTIAL. BRITISH ADMIT THAT IT IS DIFFICULT TO DEFINE " DETRIMENTAL" BUT EXPECT A GENERAL CODE OF BEHAVIOR OR CRITERIA COULD BE DETAILED AS MATTERS DEVELOP. IN ANY EVENT, REQUIRED LEVERAGE FOR ENFORCEMENT WOULD BE GROUNDED IN SYSTEM OF GOVERNMENT IMPORT LICENSES TO BE GRANTED OR DENIED ON BASIS OF COMPANY ADHERENCE TO CRITERIA. IN CONVERSATION WITH EMBASSY OFFICERS, WILLIAMS, DTI, SUGGESTED GUIDELINES FOR COMPANY NEGOTIATIONS WITH PRODUCERS AND AGREEMENT NOT TO ACCEPT " HOT OIL" MIGHT BE INCLUDED AMONG SPECIFIC CRITERIA.

6. SENSITIVE TO NEED TO AVOID CONFRONTATION WITH OPEC, UK WOULD BOTH PUBLICLY AND IN PRIVATE TAKE PAINS TO BUILD BRIDGES TO PRODUCERS AND CONSTANTLY ASSURE THEM OF THEIR RIGHTS, ETC. THIS WOULD ALSO HELP MAKE AGREEMENT MORE ACCEPTABLE TO JAPANESE AND GERMANS, WHO PARTICULARLY WISH TO AVOID OFFENDING PRODUCERS. BRITISH ARE ESPECIALLY CONCERNED ABOUT GETTING JAPANESE TO SIGN SUCH AN AGREEMENT BECAUSE OF EXTREME GOJ RELUCTANCE TO ANTAGONIZE OPEC. BUT UK DOES NOT SUBSCRIBE TO VIEW THAT CHANCES OF JAPANESE ADHERENCE ARE SO REMOTE THAT WE SHOULD RESIGN OURSELVES TO FULL COMPETITION AND HOPE FOR THE BEST. GERMANS MAY BE DIFFICULT BUT TO LESSER EXTENT. FRENCH UNDOUBTEDLY ARE PREPARED TO GO ALONG IN PRINCIPLE ON COOPERATION BUT BRITISH CONCEDE IT WILL BE HARD TO WORK OUT DETAILS WITH THEM. ONE OFFICIAL GAVE EVEN MONEY ODDS ON GETTING OPERATIVE INTERGOVERNMENTAL AGREEMENT.

7. SEVERAL OFFICIALS STRESSED THAT IT IS VERY IMPORTANT TO GET COOPERATION SCHEME STARTED QUICKLY. THEY NOTED AS AN EXAMPLE THAT SHOULD MATTERS GO BADLY IN LIBYA, PARTICIPATION AGREEMENT IN GULF COULD BE DESTROYED ALMOST OVERNIGHT.

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